

Community Development Commission

January 20, 2009

To: Each Supervisor

From: Cordé Carrillo, Acting Executive Director



SUBJECT: STATUS OF FEDERAL AND STATE APPLICATIONS FOR NEIGHBORHOOD STABILIZATION PROGRAM (NSP) FUNDING

The purpose of this memorandum is to respond to the request by the Board of Supervisors, as specified in Item 44-E of the January 13, 2009 motion by Supervisor Mark Ridley-Thomas. The motion directed the Acting Executive Director of the Community Development Commission (CDC) to report back on the status of the County's application with the U.S. Department of Housing and Urban Development's (HUD) NSP, as well as on the status of the County's application with the State's NSP.

BACKGROUND:

Passage of the Federal NSP

On July 30, 2008, the U.S. Congress enacted the Housing and Economic Recovery Act of 2008 (HERA), which created the NSP. The NSP is authorized under Title III of HERA to provide targeted emergency assistance to every state and certain local grantees to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes in order to stabilize neighborhoods and stem the decline of housing values. HUD released the NSP regulations through the Federal Register on October 6, 2008. Based on HUD's allocation formula, Los Angeles County will receive **\$16,847,672** in direct NSP funding.

Use of NSP Funding

NSP funding is provided through HUD's Community Development Block Grant (CDBG) Program and may be used for the following: Establishment of financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties; purchase and rehabilitation of homes and residential properties that have been abandoned or foreclosed, in order to sell, rent, or redevelop such homes and properties; establishment of land banks; demolition of blighted structures; and redevelopment of demolished or vacant properties.

The funds may not be used for foreclosure prevention, demolition of non-blighted structures, or purchase of properties, which have not been abandoned or foreclosed. In addition, all properties must be purchased at a discount from the current appraised value and must represent an overall portfolio of a 15% discount.

All NSP funds must be used to assist individuals and families whose incomes do not exceed

120% of area median income (\$90,950 for a family of four). In addition, not less than 25% of funds available must be used for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50% of the area median income (\$37,900 for a family of four).

Establishing Target Areas for NSP Funding

The HERA statute requires that grantees give priority emphasis in the targeting of funds to areas of greatest need, including those:

- (A) with the greatest percentage of home foreclosures;
- (B) with the highest percentage of homes financed by subprime mortgages; and
- (C) identified by the State or unit of general local government as likely to face a significant rise in the rate of home foreclosures.

As a result, 44 target areas were identified for the Housing and Economic Recovery Ownership (HERO) Program and 16 for the NSP Scattered Sites Rental Program.

CURRENT STATUS:

The CDC worked to develop priorities and strategies to utilize the NSP funding by collaborating, in October 2008, with the Districts' Homeless and CDC Deputies and its CDBG participating cities. Through this collaboration, the following two (2) programs were developed to address the identified needs:

HERO Program

The HERO Program has been modeled after our successful Homeownership Program to meet the needs of first-time homebuyers with eligible incomes, who are unable to qualify for a mortgage and/or obtain the necessary down payment without financial assistance. The home must be vacant and foreclosed upon or abandoned pursuant to program guidelines, and must be used as the principal residence of the homebuyer. Eligible homes must be located in one (1) of the established targeted areas. Homebuyers with eligible household incomes may borrow up to \$100,000 or 25% of the purchase price, whichever is less. Down payment and/or closing cost assistance is also offered of up to \$21,000 or 6% of the purchase price, whichever is less.

This Program also offers "as needed" grant assistance for the rehabilitation of foreclosed and abandoned homes purchased through the HERO Program. These grants can be obtained after completion of the purchase and must be used to rehabilitate the home to a decent, safe, and habitable condition in accordance with program standards.

NSP Scattered Sites Rental Program

The NSP Scattered Sites Rental Program has been targeted to provide affordable rental housing to those whose incomes do not exceed 50% of area median income. Housing developers will receive secured zero interest deferred loans, to acquire and rehabilitate properties, and agree to operate the housing at affordable rents for a minimum of 15 years. The properties must have between one (1) and four (4) units that were foreclosed upon or

abandoned pursuant to program guidelines. Eligible properties must be located in one (1) of the established target areas.

Submission of NSP Application and Receipt of Funds

The Board of Supervisors and Board of Commissioners approved the application for the NSP on November 25, 2008. On December 1, 2008, the CDC submitted the application to the local area HUD Office. We anticipate that the grant agreement will arrive by the end of January 2009 based on communications from our local HUD Office on January 15, 2009, and funds will be received shortly after.

IMPLEMENTATION OF NSP:

The HERO Program will be implemented immediately after receipt of funds and marketing of the programs will be conducted through the Los Angeles County Housing Resource Center website. A Request for Funding Proposals will be released for the NSP Rental Program in February 2009.

STATUS OF STATE NSP APPLICATION:

The State of California will receive \$145,071,506 in NSP funding. The State will allocate a large portion of these funds to local jurisdictions and Los Angeles County is eligible to receive \$187,059. Included within the County are 37 other cities that are also eligible to receive funding if they submit a joint or combined application of \$1 million dollars. If these cities do not apply for the funding, it will be reallocated to the County. A total of up to \$13,931,831 may be available to the County if these jurisdictions do not apply.

We are waiting for the State to release its Notice of Funding Availability (NOFA) to begin the application phase. The application will include the County's plan to spend the State's NSP funding and will address the funding criteria in the NOFA. The NOFA will also indicate when we would expect to receive the funding if awarded.

In addition to the funding noted above, the State has set-aside 25% of the \$145 million in NSP funds for targeted, over-the-counter subgrants to eligible applicants, including the County, who will specifically target households at or 50% of area median income.

County's Application to the State

The CDC is prepared to apply for State NSP funding with the HERO Program. Although we are awaiting the NOFA, we held a public hearing at the CDC on January 20, 2009 at 10:00 a.m., to solicit comments from the public. Once we have the State NSP application, we will publish another public notice to advertise a hearing before the Board of Supervisors and Board of Commissioners.

Cordé Carrillo, Acting Executive Director
January 20, 2009
Page 4

Should you have any questions, please contact me at (323) 890-7400 or Terry Gonzalez, Director of the CDBG Division, at (323) 890-7150.

CC: TG:LJ:RB:rb
Linda\NSP\HUD NSP Board Memorandum.doc

c: William T Fujioka, Chief Executive Officer
Lari Sheehan, Deputy Chief Executive Officer
Rosemary Gutierrez, Analyst, Chief Executive Office
Each Deputy